Share Health Plan of Illinois, Inc. in Itasca, Illinois

Report No. FP-00-94-022

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Share Health Plan of Illinois, Inc., in Itasca, Illinois, is a wholly owned subsidiary of UHC Management Company, Inc. (UHC), an HMO management corporation providing services to the plan under the terms of a management agreement. UHC, in turn, is owned by United HealthCare Corporation, based in Minneapolis, Minnesota, where our audit was conducted. This was our first audit of Share Health since it entered the FEHBP beginning January 1, 1985. Our audit covered contract years 1989 through 1993.

Share Health provides health care services throughout the Chicago metropolitan area. Its total membership at the end of the last year of our audit (1993) was approximately 84,000, with the FEHBP constituting its largest group at 11 percent. During contract years 1989 through 1993, the FEHBP paid premiums to the plan totaling approximately $46.3 million.

We examined premium rates for compliance with the plan's certificates of community rating and accurate pricing filed with our agency and determined that there were violations resulting in overcharges to the FEHBP totaling $6,188,651 for the five-year period covered by our audit. In accordance with the FEHBP contract and regulations governing community-rated carriers, the FEHBP also is entitled to recover lost investment income on DCR and DP overcharges. In this instance, we determined that the FEHBP was due an additional $1,351,563 from 1989 through 1995, along with unspecified additional amounts for the period January 1, 1996, until the funds are actually returned to the FEHBP. We also noted that the plan charged the FEHBP a special loading (rider) for "inpatient nervous and mental days" in all the years under review and that this loading was improperly developed by the plan, resulting in FEHBP overcharges of $181,873. As a result of our findings, we determined the total amount due the FEHBP at $7,722,087.

Questioned Costs to FEHBP Total $7,722,087

Premium Rates and Loadings

Our examination of premium rates in 1989 showed that the plan offered discounted rates to several large groups that year. The FEHBP's 1989 rates were developed using a traditional rating methodology, while a different methodology was employed for commercial groups (community-rating-by-class). Inasmuch as the plan was unable to provide demographic support for any of the age/sex factors it used in developing the commercial groups' rates, we concluded that the FEHBP was entitled to a rate adjustment equal to the lowest rate (largest discount) offered to any of the plan's groups during the same contract period. Share Health, while acknowledging our finding, did not agree with the recommended remedy. Similarly, in 1990, the plan offered discounted rates to several large groups that were not extended to the FEHBP. By federal regulation, the FEHBP is entitled to a market price adjustment for that year equaling the highest discount provided to a similarly sized group. We applied a market price adjustment factor to the FEHBP rates to calculate the amount of that adjustment.

In 1991 and 1992, Share Health was in violation of its certificate of accurate pricing in each instance by selecting the wrong SSSG to establish FEHBP's rates. The SSSGs in question received, respectively, a 12.6 percent and 13.9 percent discount below the market price rate charged to the FEHBP for those years. And again, in 1993, we determined that the FEHBP was not rated in a manner consistent with the plan's SSSGs. In this instance, the FEHBP was charged a rate that was 16.6 percent higher than the plan's established market price rate. While disagreeing with the specific amounts we recommended for recovery, Share Health acknowledged in a July 13, 1994 letter to OPM that it had overcharged the FEHBP $4,434,315 for contract years 1990 through 1993 and that it has begun to repay monies owed for those years.

As previously mentioned, we learned that the plan incorrectly calculated a special loading for inpatient nervous and mental days covering all the years under review, resulting in a $181,873 overcharge to the FEHBP. Share Health agrees that the loading was incorrectly developed, but the plan has taken the position that we have overstated the adjustment due the FEHBP. The plan has based its position on its interpretation of the FEHBP contract as well as the Federal Employees Health Benefits Acquisition Regulations.

While we did not agree with Share Health's position regarding any of our recommendations for reimbursement to the FEHBP, we did note that any of the amounts already recouped by OPM from Share Health should be taken into consideration when the plan makes final settlement.

Rating System

We reviewed the plan's rating of subscriber groups and met with Share Health officials in this regard. As a result, we determined that the plan does not have adequate internal controls in place to assure that its rating system is in compliance with applicable FEHBP laws and regulations or that the rates charged to the FEHBP represent community or market price rates. In this regard, we found that the plan did not have written policies and procedures describing their rating system.

Consequently, we included in our recommendations that the OPM contracting officer direct the plan to establish written policies and procedures that would assure compliance with the laws and regulations previously alluded to. We also recommended that the plan be required to maintain all pertinent records for five years, including actual enrollment reports and claims experience information, evidentiary demographic information used for rate setting, and written guidelines for each rating year, along with a clear description of each department's or activity's responsibility and authority as each relates to the rating process.

Auditors Make Recommendations to Improve Premium Rating System